



Umjindi Local Municipality
Annual Financial Statements
for the year ended 30 June 2010

Deloitte Consulting
Issued 31 August 2010

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

General Information

Mayoral committee

Executive Mayor

T.R. Manyisa

R.V. Lukhele

S.M. Zulu

Councillors

E.N. Gecelo

D.J. Adam

S.H. Zunguze

M.E Nsimbini

D.T. Chibi

M.P. Magagula

P.V. Mkhatshwa

T.G. Nkambule

P.C.W. Minnaar

M.E. Jacobs

M.J. Magagula

Grading of local authority

03

Medium Capacity

Accounting Officer

S.F. Mnisi

Municipal Manager

(013) 712 8719

Chief Finance Officer (CFO)

M.S Tlali

(013) 712 8814

Business address

Cnr GENERAAL AND DE VILLIERS STR

BARBERTON

1300

Postal address

UMJINDI MUNICIPALITY

P.O.BOX 33

BARBERTON

1300

Bankers

FIRST NATIONAL BANK

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Index	Page
Accounting Officer's Responsibilities and Approval	3
Statement of Financial Position	4
Statement of Financial Performance	5
Statement of Changes in Net Assets	6
Cash Flow Statement	7
Accounting Policies	8 - 28
Notes to the Annual Financial Statements	29 - 51
Appendices:	
Appendix A: Schedule of External loans	52

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practices (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2011 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, she is supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 4 to 51, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2010.

S.F. Mnisi

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Statement of Financial Position

Figures in Rand	Notes	2010	2009
Assets		R	R
Current Assets			
Inventories	11	2 716 570	2 391 253
Other receivables from non-exchange transactions	12	27 070	237
Consumer debtors	13	13 641 108	8 343 121
Current portion of long term receivables	10	71 383	113 325
Cash and cash equivalents	14	19 873 425	4 909 221
		36 329 556	15 757 157
Non-Current Assets			
Investment property	4	119 035 000	119 035 000
Property, plant and equipment	5	347 548 529	360 738 889
Intangible assets	6	31 878	17 618
Investments in controlled entities		100	100
		466 615 507	479 791 607
Total Assets		502 945 063	495 548 764
Liabilities			
Current Liabilities			
Other financial liabilities	17	751 319	673 900
Finance lease obligation	18	39 630	122 658
Trade and other payables from exchange transactions	21	8 279 321	6 616 940
VAT payable	22	8 417 912	7 970 083
Consumer deposits	23	2 213 131	2 000 681
Unspent conditional grants	19	12 587 703	5 234 917
Provisions	20	1 047 553	489 066
Bank overdraft	14	-	15 882 349
		33 336 569	38 990 594
Non-Current Liabilities			
Other financial liabilities	17	5 663 030	6 428 931
Finance lease obligation	18	-	34 744
Retirement benefit obligation	9	3 449 158	3 157 563
Provisions	20	2 796 273	1 050 000
		11 908 461	10 671 238
Total Liabilities		45 245 030	49 661 832
Net Assets		457 700 033	445 886 932
Net Assets			
Accumulated surplus		457 700 033	445 886 933

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Statement of Financial Performance

Figures in Rand	Notes	2010	2009
Revenue			
Property rates	25	15 121 271	11 662 362
Service charges	26	68 730 720	55 028 318
Rental of facilities and equipment		503 442	392 949
Interest received (trading)		2 516 410	2 317 872
Fines		101 386	153 617
Licences and permits		2 144 612	2 066 932
Government grants & subsidies	27	52 238 505	32 054 973
Other income		2 814 378	4 095 800
Interest received - investment	32	659 325	399 001
Total Revenue		144 830 049	108 171 824
Expenditure			
Personnel	29	(43 942 271)	(43 750 188)
Remuneration of councillors	30	(3 648 442)	(3 659 655)
Depreciation and amortisation	33	(30 125 458)	(28 853 145)
Finance costs	34	(852 322)	(1 037 298)
Debt impairment	31	(7 286 616)	(3 499 992)
Repairs and maintenance		(3 405 208)	(5 427 683)
Bulk purchases	36	(28 065 406)	(20 411 765)
Grants and subsidies paid	35	(14 285)	(283 175)
General Expenses	28	(20 997 366)	(9 995 659)
Total Expenditure		(138 337 374)	(116 918 560)
Surplus (deficit) for the year		6 492 675	(8 746 736)

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously 2008	-	301 777 727
Adjustments	-	158 693 220
Prior year adjustments	-	460 470 947
Balance at 01 July 2008 as restated	-	460 470 947
Changes in net assets	-	(5 837 278)
Prior year adjustment	-	(5 837 278)
Net income (expenses) recognised directly in net assets	-	(5 837 278)
Surplus for the year	-	(8 746 736)
Total recognised income and expenses for the year	-	(14 584 014)
Total changes	-	(14 584 014)
Opening balance as previously reported	-	285 548 318
Adjustments	-	4 970 158
Adjustments	-	159 114 336
Prior year adjustments	-	449 632 812
Balance at 01 July 2009 as restated	-	449 632 812
Changes in net assets	-	1 574 546
Undefined correction	-	1 574 546
Net income (expenses) recognised directly in net assets	-	1 574 546
Surplus for the year	-	6 492 675
Debit notes	-	8 067 221
Total changes	-	8 067 221
Balance at 30 June 2010	-	457 700 033
Note(s)		

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Cash Flow Statement

Figures in Rand	Notes	2010	2009
Cash flows from operating activities			
Receipts			
Sale of goods and services		76 804 373	70 384 572
Grants		59 591 291	22 998 110
Interest received from Debtors		2 516 410	2 317 872
		<hr/> 138 912 074	<hr/> 95 700 554
Payments			
Employee costs		(47 590 713)	(47 409 843)
Suppliers		(47 888 567)	(32 165 969)
		<hr/> (95 479 280)	<hr/> (79 575 812)
Net cash flows from operating activities	37	43 432 794	16 124 742
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(17 225 227)	(22 713 129)
Proceeds from sale of investments		-	881 612
Purchase of long term receivables		-	(9 483)
Proceeds from sale of long term receivables		41 942	-
Interest Income		659 325	399 001
Net cash flows from investing activities		(16 523 960)	(21 441 999)
Cash flows from financing activities			
Repayment of other financial liabilities		(688 482)	-
Repayment of financial liabilities		-	(669 791)
Finance lease payments		(117 772)	(195 481)
Transactions posted directly in surplus		5 596 297	(5 837 275)
Finance costs		(852 322)	(1 037 298)
Net cash flows from financing activities		3 937 721	(7 739 845)
Net increase/(decrease) in cash and cash equivalents		30 846 555	(13 057 102)
Cash and cash equivalents at the beginning of the year		(10 973 128)	2 083 974
Cash and cash equivalents at the end of the year	14	19 873 427	(10 973 128)

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

The standards included in the GRAP reporting framework, as determined in Directive 5 as issued by the Accounting Standards Board, are summarised as follows:

Standard Title of Accounting standard:

GRAP 1 Presentation of Financial Statements

GRAP 2 Cash Flow Statements

GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors

GRAP 4 The Effects of changes in Foreign Exchange Rates

GRAP 5 Borrowing Costs

GRAP 6 Consolidated and Separate Financial Statements

GRAP 7 Investments in Associate

GRAP 8 Interest in Joint Ventures

GRAP 9 Revenue from Exchange Transactions

GRAP 10 Financial Reporting in Hyperinflationary Economies

GRAP 11 Construction Contracts

GRAP 12 Inventories

GRAP 13 Leases

GRAP 14 Events after the reporting date

GRAP 16 Investment Property

GRAP 17 Property Plant and Equipment

GRAP 19 Provisions, Contingent Liabilities and Contingent Assets

GRAP 100 Non-current Assets held for Sale and Discontinued Operations

GRAP 101 Agriculture

GRAP 102 Intangible Assets

IFRS 3 (AC 140) Business Combinations

IFRS 4 (AC 141) Insurance Contracts

IFRS 6 (AC 143) Exploration for and Evaluation of Mineral Resources

IFRS 7 (AC 144) Financial Instruments: Disclosures

IAS 12 (AC 102) Income Taxes

IAS 19 (AC 116) Employee Benefits

IAS 32 (AC 125) Financial Instruments: Presentation

IAS 36 (AC 128) Impairment of Assets

IAS 39 (AC 133) Financial Instruments: Recognition and Measurement

IPSAS 20 Related Party Disclosure

IPSAS 21 Impairment of Non-Cash Generating Assets

IFRIC 4 Determining whether an Arrangement contains a Lease

14 The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IGRAP 1 Applying the Probability Test on Initial Recognition of Exchange Revenue

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, as detailed above, have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3 and the hierarchy approved in Directive 5, as issued by the accounting Standards Board.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at each statement of financial position date. In determining whether an impairment loss should be recorded in the statement of financial performance, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at each statement of financial position date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the statement of financial position date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

The municipality has not done a test for impairment in the current financial year. The testing process will begin in the new financial year and be completed by 30 June 2011.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

of these estimates of provisions are included in note 20 - Provisions.

Post retirement benefits

Payments to defined contribution retirement benefit plans are charged to the Statement of Financial Performance as they fall due. Payments made to industry managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the scheme is equivalent to those arising in a defined contribution retirement benefit plan. The retirement benefits are calculated in accordance with the rules of the funds. Full actuarial valuations are performed on a regular basis on defined benefits contribution plans, unless exemption to do so has been obtained from the Registrar of Pension Funds.

The Municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for anywhere between 30% and 50% of the medical aid membership fee, and the Council for the remaining 50% to 70%. The amount varies from person to person. The medical aid contributions are charged to the Statement of Financial Performance as they fall due. The additional cost effect of defined benefit retirement funds is immaterial and the costs thereof are charged to the Statement of Financial Performance as they fall due. The Municipality's net obligation in respect of post retirement plans are calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods whereby that benefit is discounted to determine its present value.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition. Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value. Fair value is determined by using the last available general valuation roll or market related valuations.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises. If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.3 Property, plant and equipment

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.3 Property, plant and equipment (continued)

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at costs. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the costs. The cost also includes the necessary costs of dismantling and removing the asset and restoring the asset on the site on which it is located.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment. SUBSEQUENT MEASUREMENT - COST MODEL Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The annual depreciation rates are based on the estimated average asset lives.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.3 Property, plant and equipment (continued)

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Property, plant and equipment are depreciated over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Undefined
Buildings	30
Plant and machinery	5 - 15
Furniture and fixtures	7 - 10
Motor vehicles	5 - 20
Office equipment	3 - 5
Infrastructure	
• Roads and Paving	10 - 15
• Electricity	10 - 30
• Water	15 - 20
• Sewerage	15 - 20
Community	
• Buildings	30
• Recreational Facilities	20
• Parks and gardens	15 - 20
Other property, plant and equipment	3 - 7
Other equipment	5
Landfill site	30 - 50

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.3 Property, plant and equipment (continued)

The gain or loss arising from the derecognition of an item of Property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.4 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity;
- and
- the cost of the asset can be measured reliably.

Property, plant and equipment are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these property, plant and equipment. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Reassessing the useful life of an intangible asset with a definite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 years

1.5 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.5 Financial instruments (continued)

- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Regular way purchases of financial assets are accounted for at trade date.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment in other comprehensive income and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.5 Financial instruments (continued)

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.5 Financial instruments (continued)

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases - lessor

Operating lease income is recognised as an income on another systematic basis. The income from operating leases is calculated at a fixed percentage of the employees' income per month.

Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for normal consideration, then their costs are their fair value as at the date of the acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement costs where they are held for:

- Distribution at no charge or for a nominal charge; or

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.7 Inventories (continued)

- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement costs is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.8 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.9 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Value in use

Value in use of a non-cash-generating asset is the present value of the non-cash-generating asset's remaining service potential.

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.10 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.10 Employee benefits (continued)

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in the statement of financial performance over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In the statement of financial performance, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses, plus the present value of available refunds and reduction in future contributions to the plan.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.11 Provisions and contingencies (continued)

reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.12 Revenue from exchange transactions (continued)

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.13 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender.

Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.14 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.15 Borrowing costs

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.15 Borrowing costs (continued)

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.8 and 1.9. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Extended periods is periods that exceeds 9 months.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.16 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.17 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.19 Irregular expenditure (continued)

expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

1.20 Use of Estimates

The preparation of annual financial statements in conformity with Generally Recognised Accounting Practice requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.21 Presentation of Currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.22 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GAMAP, GRAP or GAAP.

1.23 Internal Reserves

Self insurance reserve

The municipality has a Self-Insurance Reserve to set aside amounts to offset potential losses or claims that cannot be insured externally (excess payments). Premiums are charged to the respective services taking into account claims history and replacement values of the insured assets. The balance of the self-insurance fund is ringfenced within the accumulated surplus/(deficit).

The Council determines annually to contribute between 0.1% and 0.5% of the previous year's own income to the Self Insurance Reserve.

Claims not fully covered by external insurance are financed from the insurance reserve by transferring a corresponding amount from the self-insurance reserve to the accumulated surplus.

The municipality operates a self-insurance scheme under the Self-Insurance Reserve, which has a policy that is aligned with the practice in the Insurance Industry. The balance of the Self-Insurance Reserve is determined based on surpluses accumulated since inception.

These surpluses arise from the differences between premiums charged against claims paid and various administrative expenditure incurred.

At the end of each financial year the surplus as computed per above is transferred from accumulated surplus to Self-Insurance Reserve.

The balance of the self-insurance fund is not fully cash backed. Internal reserves are ringfenced within accumulated surplus.

1.24 Investments

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.24 Investments (continued)

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

1.25 Conditional Grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.26 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand

2010

2009

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice on a basis consistent with the prior year.

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

3. New standards and interpretations

GRAP 21: Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

A municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality expects to adopt the standard for the first time in the 2011 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by a municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, a municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, a municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and a municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, a municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity uses management's best estimate of future price(s)

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

A municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, an municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality expects to adopt the standard for the first time in the 2011 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

3.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2010 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2011.

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality expects to adopt the standard for the first time in the 2011 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality expects to adopt the standard for the first time in the 2011 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

GRAP 103: Heritage Assets

Grap 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:

- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the cost of fair value of the asset can be measured reliably.

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

Grap 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grap 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Grap 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality expects to adopt the standard for the first time in the 2011 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 1: Interpretation of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue

An entity assesses the probability of each transaction on an individual basis when it occurs. Entities shall not assess the probability on an overall level based on the payment history of recipients of the service in general when the probability of revenue is assessed at initial recognition.

The full amount of revenue will be recognised at initial recognition. Assessing impairment is an event that takes place subsequently to initial recognition. Such impairment is an expense. Revenue is not reduced by this expense.

The effective date of the interpretation is for years beginning on or after 01 April 2010.

The municipality expects to adopt the interpretation for the first time in the 2011 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand

2010

2009

4. Investment property

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	119 035 000	-	119 035 000	119 035 000	-	119 035 000

Reconciliation of investment property - 2010

	Opening Balance	Total
Investment property	119 035 000	119 035 000

During the financial year the municipality identified and measured investment properties in terms of GRAP 16.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The fair value of the above properties is R 119 035 000 (2009 : R 119 035 000). Investment properties have been valued in accordance with the new municipal valuation roll which became effective on 1 July 2008 and has been adjusted to take into account current market conditions.

Retrospective application of the effects of GRAP 16 implementation:

- The implementation of GRAP 16 is a change in accounting policy. In terms of GRAP 3 changes in accounting policies should be applied retrospectively. Retrospective application corrections were done in the 2010 financial year.

Other information

5. Property, plant and equipment

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	23 489 059	-	23 489 059	23 489 059	-	23 489 059
Buildings	27 538 377	(8 222 040)	19 316 337	27 538 377	(7 304 935)	20 233 442
Office equipment	616 595	(319 358)	297 237	762 315	(522 375)	239 940
Infrastructure	708 654 199	(458 289 123)	250 365 076	706 334 116	(435 558 959)	270 775 157
Community	30 114 121	(14 939 884)	15 174 237	28 920 995	(12 810 624)	16 110 371
Other property, plant and equipment	33 347 610	(27 662 323)	5 685 287	33 116 116	(22 838 548)	10 277 568
Capital work in progress	31 641 788	-	31 641 788	18 033 844	-	18 033 844
Heritage	529 508	-	529 508	529 508	-	529 508
Landfill site	1 050 000	-	1 050 000	1 050 000	-	1 050 000
Total	856 981 257	(509 432 728)	347 548 529	839 774 330	(479 035 441)	360 738 889

Reconciliation of property, plant and equipment - 2010

	Opening Balance	Additions	GRAP Implementation	Depreciation	Total
Land	23 489 059	-	-	-	23 489 059
Buildings	20 233 442	-	-	(917 105)	19 316 337
Office equipment	239 940	145 721	-	(88 423)	297 238
Infrastructure	270 775 157	2 073 609	195 677	(22 679 367)	250 365 076
Community	16 110 371	1 193 126	(512 133)	(1 617 127)	15 174 237
Other property, plant and equipment	10 277 568	204 827	26 328	(4 823 436)	5 685 287

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand

2010 2009

5. Property, plant and equipment (continued)

Capital work in progress	18 033 844	13 607 944	-	-	31 641 788
Heritage	529 508	-	-	-	529 508
Landfill site	1 050 000	-	-	-	1 050 000
	360 738 889	17 225 227	(290 128)	(30 125 458)	347 548 530

Reconciliation of property, plant and equipment - 2009

	Opening Balance	Additions	GRAP Implementation	Depreciation	Total
Land	763 882	8 329 505	14 395 672	-	23 489 059
Buildings	21 150 517	-	803	(917 878)	20 233 442
Office equipment	385 661	-	-	(145 721)	239 940
Infrastructure	288 512 777	4 357 270	-	(22 094 890)	270 775 157
Community	8 352 760	8 178 727	-	(421 116)	16 110 371
Other property, plant and equipment	7 608 834	797 627	7 144 647	(5 273 540)	10 277 568
Capital work in progress	-	-	18 033 844	-	18 033 844
Heritage	42 806	-	486 702	-	529 508
Other property, plant and equipment # 4	-	1 050 000	-	-	1 050 000
	326 817 237	22 713 129	40 061 668	(28 853 145)	360 738 889

Other information

During the previous financial year the municipality implemented a process to complete the identification, recording, valuing and managing infrastructure assets as required in terms of GRAP 17. This process was completed in the current financial year and resulted in a reconstructed fixed asset register for infrastructure assets. The key issues in this regard were as follows:

Physical verification and valuation:

- All the infrastructure assets have been physically verified during the year by specialists. During this process the asset location, condition and maintenance history was recorded and evaluated.
- The assets have been valued by an independent valuer and are effective on 30 June 2010.
- Due to the specialised nature of the assets, and market availability of information, the Depreciated Replacement Cost method was used.
- A verification and condition assessment was done except for certain underground assets due to the nature of the assets and the fact that the assets are underground.
- In the case of inaccessible assets various methods were employed to record and value the assets. These assets are reflected in the asset register as "polygon assets". A polygon asset is an asset that is referenced by a geographically referenced area and the actual position and detail of the asset estimated within this geographical area.
- As the assets are maintained or a process implemented to more accurately record these assets the polygon can be broken down into detailed components.

Retrospective application of the effects of implementation of GRAP 17

- The implementation of GRAP 17 is a change in accounting policy. In terms of GRAP 3 changes in accounting policies should be applied retrospectively. On initial application the municipality applied prospective application of the infrastructure assets during the 2009 financial year. This was corrected during the current financial year by applying the application retrospectively.

The methodology followed for the retrospective application corrections were done as follows:

Disclosure of the asset information

- The deemed cost was determined on 30 June 2010 by using the depreciated replacement values (DRC).
- The opening for the take on values of the assets as well as for accumulated depreciation is restated. This adjustment is made directly to accumulated surplus.
- Depreciation for the year has been based on the new asset values and is calculated on the straight line method.
- During the financial year the municipality also identified and measured investment properties in terms of GRAP 16.

Movable Assets

During the current financial year the municipality implemented a process to identify, record and value movable assets as required in terms of GRAP 17. This resulted in a reconstructed fixed asset register for movable assets. The key issues in this regard were as follows:

Physical verification and valuation

- All the movable assets have been physically verified during the year. During this process the asset location, condition, description and custodian was recorded and evaluated.

A verification and condition assessment was done.

Retrospective application of the effects of GRAP 17 implementation

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand

2010

2009

5. Property, plant and equipment (continued)

- The implementation of GRAP 17 is a change in accounting policy. In terms of GRAP 3 changes in accounting policies should be applied retrospectively. The methodology followed for the retrospective application corrections was done as follows:
Disclosure of the asset information
- Actual values were used where supporting information was available. For the remaining assets the DRC methodology was followed to determine deemed costs of these assets.
- Actual values were used where supporting information was available. For the remaining assets the DRC methodology was followed to determine accumulated surplus.
- Depreciation for the year has been based on the new asset values and is calculated on the straight line method.

Heritage Assets

During the current financial year the municipality implemented a process to identify, record and value Heritage assets as required in terms of GRAP 17. This resulted in a reconstructed fixed asset register for Heritage assets. The key issues in this regard were as follows:

Physical verification and valuation

- All the movable assets have been physically verified during the year. During this process the asset location, condition, description and custodian was recorded and evaluated.

A verification and condition assessment was done.

Retrospective application of the effects of GRAP 17 implementation

- The implementation of GRAP 17 is a change in accounting policy. In terms of GRAP 3 changes in accounting policies should be applied retrospectively. The methodology followed for the retrospective application corrections was done as follows:
Disclosure of the asset information

Actual values were used where supporting information was available. For the remaining assets an expert valuer was used to determine the values. The values of The heritage assets. for certain assets no replacement values could be obtain and therefore The municipality measured these assets at one rand as there are no external market for these assets.

- The opening for the take on values of the assets is restated. This adjustment is made directly to accumulated surplus.

[Insert additional text]

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.]

6. Intangible assets

	2010		2009	
	Cost / Valuation	Accumulated amortisation	Cost / Valuation	Accumulated amortisation
Computer software, other	43 690	(11 812)	31 878	25 390
			(7 772)	17 618

Other information

During the current financial year the municipality implemented a process to identify, record and value Intangible assets as required in terms of GRAP 102. This resulted in a reconstructed fixed asset register for Intangible assets. The key issues in this regard were as follows:

Physical verification and valuation:

- All the Intangible assets have been verified during the year. During this process the asset location and description was recorded and evaluated.]

Retrospective application of the effects of GRAP 102 implementation:

- The implementation of GRAP 102 is a change in accounting policy. In terms of GRAP 3 changes in accounting policies should be applied retrospectively. The methodology followed for the retrospective application corrections was done as follows:

Disclosure of the asset information

- Actual values were used to determine the cost of these assets.

- The opening for the take on values of the assets as well as for accumulated amortisation is restated. This adjustment is

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand

2010

2009

6. Intangible assets (continued)

made directly to accumulated surplus.

- Amortisation for the year has been based on the new asset values and is calculated on the straight line method.

The useful life of "x trade mark" is considered indefinite. It is not bound by any expiry period as there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the municipality.

7. Other financial assets

8. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2010

	Loans and receivables	Total
Other financial assets	7 423 015	7 423 015
Trade and other receivables	12 046 874	12 046 874
Cash and cash equivalents	12 450 410	12 450 410
Long term receivables	71 383	71 383
	31 991 682	31 991 682

2009

	Loans and receivables	Total
Other financial assets	4 948 673	4 948 673
Trade and other receivables	8 343 121	8 343 121
Cash and cash equivalents	13 570	13 570
Long term receivables	113 325	113 325
	13 418 689	13 418 689

9. Retirement benefits

Defined benefit plan

Post retirement medical aid plan

The calculation for post retirement medical aid plan was not done by an actuary as per the requirements of IAS 19.

The calculation is based on the current year service cost discounted at 10% over a 20 year period.

Defined contribution plan

All Councillors and employees belong to 5 defined contribution retirement funds administered by the Provincial Pension Fund. These funds are subject to a triennial actuarial valuation. These valuations indicate that the funds are in a sound position.

The municipality is under no obligation to cover any unfunded benefits.

10. Long Term Receivables

Car Loans		22 113
New Service Connections	71 382	91 211
TOTAL	71 382	113 325

Less: Current Portion
Car Loans

22 113

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
10. Long Term Receivables (continued)		
New Service Connections	71 382	91 211
TOTAL	<u>71 382</u>	<u>113 325</u>
Long Term Recievable	0	0
11. Inventories		
Water	486 468	583 639
Stores, materials and fuels	2 230 102	1 807 614
	<u>2 716 570</u>	<u>2 391 253</u>
12. Other receivables from non-exchange transactions		
Attorney Lemmer & Kie	-	237
Other debtors	1 643	-
Theft of cash by employee	25 427	-
	<u>27 070</u>	<u>237</u>
Other receivables from non-exchange transactions pledged as security		
The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.		
None of the financial assets that are fully performing have been re-negotiated in the last year.		
Fair value of other receivables from non-exchange transactions		
Other receivables from non-exchange transactions	-	237
The fair value was determined by accepting the face value of the outstanding balances.		
13. Trade and other receivables from exchange transactions		
Gross balances		
Rates	6 532 146	4 153 217
Electricity	4 663 543	2 284 640
Water	6 859 861	4 339 938
Sewerage	3 000 334	2 088 436
Refuse	3 827 396	2 843 173
Housing rental	3 161	799
Other	16 759 184	13 401 576
	<u>41 645 625</u>	<u>29 111 779</u>
Less: Provision for bad debts		
Rates	(4 188 175)	(2 962 949)
Electricity	(1 616 248)	(1 629 887)
Water	(3 973 234)	(3 096 159)
Sewerage	(2 124 978)	(1 489 913)
Refuse	(2 786 040)	(2 028 350)
Other	(13 315 842)	(9 561 400)
	<u>(28 004 517)</u>	<u>(20 768 658)</u>
Net balance		
Rates	2 343 971	1 190 268
Electricity	3 047 295	654 753
Water	2 886 627	1 243 779
Sewerage	875 356	598 523
Refuse	1 041 356	814 823

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
13. Trade and other receivables from exchange transactions (continued)		
Housing rental	3 161	799
Other	3 443 342	3 840 176
	13 641 108	8 343 121
Rates		
Current (0 -30 days)	1 119 587	245 153
31 - 60 days	435 878	74 830
61 - 90 days	311 513	54 090
91 - 120 days	138 589	48 392
121 - 365 days	338 404	46 130
> 365 days	-	721 673
	2 343 971	1 190 268
Electricity		
Current (0 -30 days)	1 765 459	424 142
31 - 60 days	584 171	54 271
61 - 90 days	337 214	19 838
91 - 120 days	144 032	11 856
121 - 365 days	216 419	9 186
> 365 days	-	135 460
	3 047 295	654 753
Water		
Current (0 -30 days)	1 045 008	332 320
31 - 60 days	866 923	111 206
61 - 90 days	537 584	74 604
91 - 120 days	130 233	63 686
121 - 365 days	306 879	56 399
> 365 days	-	605 564
	2 886 627	1 243 779
Sewerage		
Current (0 -30 days)	322 171	79 766
31 - 60 days	179 953	33 151
61 - 90 days	142 602	27 641
91 - 120 days	64 212	24 015
121 - 365 days	166 418	22 105
> 365 days	-	411 845
	875 356	598 523
Refuse		
Current (0 -30 days)	398 032	101 402
31 - 60 days	201 796	44 120
61 - 90 days	158 960	36 786
91 - 120 days	75 297	32 332
121 - 365 days	207 271	29 856
> 365 days	-	570 327
	1 041 356	814 823
Housing rental		
Current (0 -30 days)	878	-
31 - 60 days	2 243	-
121 - 365 days	40	-
> 365 days	-	799

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
13. Trade and other receivables from exchange transactions (continued)		
	3 161	799
Other (specify)		
Current (0 -30 days)	218 756	74 418
31 - 60 days	603 469	175 877
61 - 90 days	1 514 113	133 087
91 - 120 days	257 720	109 801
121 - 365 days	849 284	110 826
> 365 days	-	3 236 167
	3 443 342	3 840 176

Reconciliation of bad debt provision

Balance at beginning of the year	8 343 121	17 959 518
Contributions to provision	7 235 859	2 809 140
Bad debts written off against provision	50 757	(12 425 537)
Bad debts written off	(1 988 629)	-
	13 641 108	8 343 121

None of the financial assets that are fully performing have been renegotiated in the last year.

Fair value of consumer debtors

Consumer debtors	11 996 117	8 343 121
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The fair value of consumer debtors was determined by accepting the face value of the outstanding capital.

Consumer debtors impaired

As of 30 June 2010, consumer debtors of 7 235 859 (2009: 3 499 992) were impaired and provided for.

The amount of the provision was 28 004 517 as of 30 June 2010 (2009: 20 768 658).

The ageing of these loans is as follows:

3 to 6 months	30 590 025	27 854 578
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14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	12 055	13 570
Bank balances	12 438 355	-
Short-term deposits	7 423 015	4 895 651
Bank overdraft	-	(15 882 349)
	19 873 425	(10 973 128)

Current assets	19 873 425	4 909 221
Current liabilities	-	(15 882 349)
	19 873 425	(10 973 128)

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand

2010

2009

14. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2010	30 June 2009	30 June 2008	30 June 2010	30 June 2009	30 June 2008
First National Bank - Barberton Branch (270152)	742 031	334 571	5 395 161	12 438 355	(15 882 349)	(1 722 672)
Account Number (51600026441)						
Absa BANK - Call Account - Nelspruit Branch 407 085 2360	12 516	-	-	12 516	-	-
First National Bank - Business Money Market Account - Account Number (62271408926)	100 000	-	-	100 000	-	-
First National Bank - Barberton Branch (270152)- Account Number (62199275647)	7 310 498	-	-	7 310 498	-	-
Total	8 165 045	334 571	5 395 161	19 861 369	(15 882 349)	(1 722 672)

15. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - 2010

	Insurance reserve	Total
Opening balance		
Excess payable on insurance claims	2 441 997	2 441 997
Lion of Africa and Pezulu payments	141 490	141 490
	185 188	185 188
	2 768 675	2 768 675

16. Internal Insurance reserve

Internal Insurance Reserve	2 768 675	2 441 997
Transferred to Accumulated Surplus	(2 768 675)	(2 441 997)
	-	-

17. Other financial liabilities

Held at amortised cost

Current portion of DBSA loans	751 319	673 900
These loans bear interest at various rates and are repayable in the next 12 months.		
DBSA Vehicle Fleet Management	63 340	223 913
This loan bears interest at 8,94% and is repayable on 30 September 2011.		
DBSA Loan 1996/7	1 329 743	1 434 311
This loan bears interest at 14,5% and is repayable on 31 March 2018.		
DBSA Infrastructure 13279/1	1 076 842	1 143 494
This loan bears interest at 15% and is repayable on 31 March 2019.		
DBSA Infrastructure 13356 B	741 697	779 993
This loan bears interest at 16,5% and is repayable on 30 September 2019.		
DBSA Loan Elec Ext 13	1 159 030	1 380 344
This loan bears interest at 10,81% and is repayable on 31 March 2015.		
DBSA Elec Loan Rural Electrification	1 292 378	1 466 876
This loan bears interest at 9,08% and is repayable on 30 September 2016.		
	6 414 349	7 102 831

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
17. Other financial liabilities (continued)		
The fair values of the financial liabilities were determined by accepting the face values of outstanding capital.		
Non-current liabilities		
At amortised cost	5 663 030	6 428 931
Current liabilities		
At amortised cost	751 319	673 900
	6 414 349	7 102 831

18. Finance lease obligation

Minimum lease payments due		
- within one year	40 707	132 038
- in second to fifth year inclusive	-	35 660
	40 707	167 698
less: future finance charges	(1 077)	(10 296)
Present value of minimum lease payments	39 630	157 402
Present value of minimum lease payments due		
- within one year	39 630	122 658
- in second to fifth year inclusive	-	34 744
	39 630	157 402
Non-current liabilities	-	34 744
Current liabilities	39 630	122 658
	39 630	157 402

It is municipality policy to lease certain office equipment under finance leases.

The average lease term was 5 years and the average effective borrowing rate was 11% (2009: 11%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note .

19. Unspent conditional grants

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
MIG Grant	12 587 703	5 234 917
Movement during the year		
Balance at the beginning of the year	5 234 917	14 291 780
Additions during the year	29 463 621	4 445 621
Income recognition during the year	(22 110 835)	(13 502 484)
	12 587 703	5 234 917

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the entity has directly benefited; and

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand

2010

2009

19. Unspent conditional grants (continued)

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 27 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

20. Provisions

Reconciliation of provisions - 2010

	Opening Balance	Additions	Total
Environmental rehabilitation	1 050 000	1 746 273	2 796 273
Provision for performance bonuses	489 066	558 487	1 047 553
	1 539 066	2 304 760	3 843 826

Reconciliation of provisions - 2009

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	-	1 050 000	-	1 050 000
Performance Bonus	275 123	876 862	(662 919)	489 066
	275 123	1 926 862	(662 919)	1 539 066
Non-current liabilities			2 796 273	1 050 000
Current liabilities			1 047 553	489 066
			3 843 826	1 539 066

21. Trade and other payables from exchange transactions

Trade payables	134 555	126 342
Attorney fees	-	3 093
Accrued leave pay	2 880 177	2 671 612
Accrued Trade payables	189 718	21 123
Sundry Deposits	-	46 876
Retentions	3 933 416	2 676 417
Other creditors	2 675	152
Unidentified bank deposits	1 138 780	1 071 325
	8 279 321	6 616 940

22. VAT payable

VAT payable	8 417 912	7 970 083
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VAT is payable on the receipt basis. Only once payment has been received is VAT paid to SARS.

23. Consumer deposits

Electricity & Water	2 213 131	2 000 681
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The breakdown of the deposits could not be established by the Municipality.

24. Financial liabilities by category

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand

2010

2009

24. Financial liabilities by category (continued)

The accounting policies for financial instruments have been applied to the line items below:

2010

	Financial liabilities at amortised cost	Fair value through surplus or deficit - held for trading	Fair value through surplus or deficit - designated	Total
Other financial liabilities	6 428 931	-	-	6 428 931
Trade and other payables	6 483 955	-	-	6 483 955
	12 912 886	-	-	12 912 886

2009

	Financial liabilities at amortised cost	Fair value through surplus or deficit - held for trading	Fair value through surplus or deficit - designated	Total
Other financial liabilities	7 102 831	-	-	7 102 831
Trade and other payables	6 616 940	-	-	6 616 940
	13 719 771	-	-	13 719 771

25. Property Rates

Rates received

Residential	7 659 022	6 520 320
Commercial	4 233 632	3 915 079
State	3 228 617	1 226 963
	15 121 271	11 662 362

26. Service charges

Sale of electricity	42 375 146	30 982 610
Sale of water	14 772 183	13 884 993
Sewerage and sanitation charges	4 975 666	4 254 636
Refuse removal	6 607 725	5 906 079
	68 730 720	55 028 318

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
27. Government grants and subsidies		
Disaster Management Grant	790 880	319 444
DME	4 778 486	4 000 000
Equitable Share (IGG)	29 392 669	22 527 197
Finance Management Grant (FMG)	327 594	500 000
MIG	14 271 309	3 906 922
Municipal Systems Improvement Grant (MSIG)	735 000	735 000
EDM Grant	-	52 105
World Heritage Grant	1 942 567	14 305
	52 238 505	32 054 973

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Grant 1

Balance unspent at beginning of year	5 234 917	-
Balance unspent at beginning of year	-	14 291 780
Current-year receipts	29 463 622	(41 111 836)
Conditions met - transferred to revenue	(22 110 836)	32 054 973
	12 587 703	5 234 917

Conditions still to be met - remain liabilities (see note 19)

28. General expenses

Assets expensed	1 746 274	22 330
Departmental charges	(119 648)	6 048
General expense	34 443 124	30 441 288
Expense 3	(16 797 803)	(20 865 456)
Project operating expenditure	1 725 419	391 449
	20 997 366	9 995 659

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
29. Employee related costs		
Basic	25 051 873	25 653 687
Performance Bonus (Section 57 Employees)	103 867	272 808
Medical aid - company contributions	1 856 309	1 753 409
UIF	276 869	288 169
Leave pay provision charge	1 941 581	1 824 003
Travel, motor car, accommodation, subsistence and other allowances	1 946 876	1 912 788
Overtime payments	2 478 738	2 127 600
Acting allowances	373 747	355 885
Housing benefits and allowances	848 594	1 116 220
Pension Contributions	5 468 692	5 238 912
	40 347 146	40 543 481
Remuneration of municipal manager		
Annual Remuneration	891 478	799 532
Performance Bonuses	135 521	110 739
	1 026 999	910 271
Remuneration of chief finance officer		
Annual Remuneration	784 905	703 950
Performance Bonuses	111 365	97 500
	896 270	801 450
Remuneration of executive directors		
Annual Remuneration	1 464 122	1 313 114
Performance Bonuses	207 734	181 872
	1 671 856	1 494 986
30. Remuneration of councillors		
Executive Major	556 550	553 147
Mayoral Committee Members	552 524	720 145
Speaker	445 547	449 109
Councillors	1 756 269	1 599 469
Councillors' pension contribution	258 090	269 142
Councillors' medical aid contribution	79 462	68 643
	3 648 442	3 659 655
31. Debt impairment		
Contributions to debt impairment provision	7 286 616	3 499 992
32. Investment revenue		
Interest revenue		
Bank	656 461	391 274
Interest received - other	2 864	7 727
	659 325	399 001
33. Depreciation and amortisation		

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
33. Depreciation and amortisation (continued)		
Property, plant and equipment	30 125 458	28 853 145
34. Finance costs		
Current borrowings	852 322	1 037 298
35. Grants and subsidies paid		
Other subsidies		
UMDA	14 285	283 175
The municipality paid a grant to the Umjindi Development Agency.		
36. Bulk purchases		
Electricity	28 065 406	20 411 765
37. Cash generated from operations		
Surplus (deficit)	6 492 675	(8 746 736)
Adjustments for:		
Depreciation and amortisation	30 125 458	28 853 145
Interest income	(659 325)	(399 001)
Finance costs	852 322	1 037 298
Debt impairment	7 286 616	3 499 992
Movements in retirement benefit assets and liabilities	291 595	3 157 563
Movements in provisions	2 304 760	1 263 943
Changes in working capital:		
Inventories	(325 317)	(196 294)
Other receivables from non-exchange transactions	(26 833)	-
Consumer debtors	(12 584 603)	(3 015 406)
Trade and other payables from exchange transactions	1 662 381	(2 932 425)
VAT	447 829	2 502 801
Unspent conditional grants	7 352 786	(9 056 863)
Consumer deposits	212 450	156 725
	43 432 794	16 124 742

38. Contingencies

A dispute with a farmers' union is in process who seek compensation for a sewerage pipeline installed over their property. Land was originally offered as compensation which was declined. It was indicated that a financial compensation would be considered, but it was again declined. They now want the land as previously offered. The estimated liability to the municipality is R150 000. Identified land (20ha) as was offered by Council. Process of transferring to commence.

SAMWU pension fund claim for monies erroneously paid to them. Advocate still in process to claim monies back. R198181.23 plus interest

The municipality has dismissed some of its employees.

- Disciplinary hearing B.H.Nkosi ; Petrol Theft -various charges with combined value of +- R1500.00. Verdict of "guilty" but went on appeal scheduled for 9 Sept 2010.

- Disciplinary hearing M. Myeni ; Cable theft .Value +- R 72000.00 . Verdict of "Not Guilty"

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand

2010

2009

39. Related parties

Relationships

The Umjindi Municipal Development Agency (UMDA) was incorporated on 30 October 2008. The Umjindi Local Municipality Council resolved to report all Agency related pre-incorporation financial transactions for the first time at 30 June 2009.

Ultimate holding company
Holding company

Umjindi Local Municipality
Umjindi Local Municipality

Authorised shares 1000 @ R1
Issued shares 100 @ R 1

Umjindi local municipality holds 100% of issued shares (to be confirmed).

Related party transactions

UMDA

Grants paid to UMDA (Refer note 34)	14 285	283 175
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Compensation to accounting officer and other key management

Short-term employee benefits	103 867	272 808
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40. Prior period errors

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Increase to Property, plant and equipment	191 694 452	550 897 910
Increase to Accumulated depreciation	(27 609 958)	(360 462 993)
Accumulated surplus affected	164 084 494	190 434 917

41. Risk management

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

42. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009	
43. Fruitless and wasteful expenditure			
Interest Paid to Creditors	116 450	206 796	
44. Additional disclosure in terms of Municipal Finance Management Act			
Audit fees			
Opening balance	868 901	(116 198)	
Amount paid - current year	321 512	985 099	
	1 190 413	868 901	
UIF			
Current year payroll deduction	276 869	288 169	
Amount paid - current year	(276 869)	(288 169)	
	-	-	
Pension and Medical Aid Deductions			
Current year payroll deduction	1 856 309	1 753 409	
Amount paid - current year	(1 856 309)	(1 753 409)	
	-	-	
VAT			
VAT payable	8 417 912	7 970 083	
VAT output payables and VAT input receivables are shown in note .			
All VAT returns have been submitted by the due date throughout the year.			
Councillors' arrear consumer accounts			
The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2010:-			
30 June 2010	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor E.N. Cecelo	2 146	4 489	6 635
Councillor P.V. Mkhatshwa	336	244	580
Councillor M.J. Magagula	142	110	252
Councillor M.E. Jacobs	1 358	-	1 358
Councillor G Sibya	411	-	411
Councillor M.P. Magagula	477	-	477
Councillor S.H. Zunguze	426	-	426
Councillor T.R. Manyisa	707	-	707
Councillor V.R Lukhele	5 539	-	5 539
Councillor S.M. Zulu	799	-	799
	12 341	4 843	17 184

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009	
44. Additional disclosure in terms of Municipal Finance Management Act (continued) 30 June 2009			
	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor E.N. Cecelo	-	18 314	18 314

45. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

The deviation details are reflected on Appendix G.

46. Project commitments

Details of project commitments for the new financial year are reflected on Appendix H.

Umjindi Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Appendix A: Schedule of external loans

APPENDIX A

GOVERNMENT TEMPLATE: SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2010

APPENDIX A

GOVERNMENT TEMPLATE: SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2010

Loan Number	Redeemable	Balance at 30 June 2009	Received during the period	Redeemed written off during the period	Balance at 30 June 2010	Carrying Property, Plant & Equip Rand	Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA
								Rand
DEVELOPMENT BANK OF SOUTH AFRICA								
DBSA @ 13.22%	11984 - 11993	30/06/2014	62 465	-	4 782	57 683	77 829	-
DBSA @ 10.00%	2513/103	31/03/2009	18 907	-	5 699	13 208	24 078	-
DBSA @ 10.00%	8056/103	30/09/2011	36 720	-	5 299	31 421	53 419	-
DBSA @ 10.00%	8250/102	31/03/2014	5 946	-	515	5 431	19	-
DBSA @ 10.00%	9005/103	31/03/2013	219 392	-	22 955	196 437	291 731	-
DBSA @ 10.00%	9337/101	30/09/2014	23 804	-	1 889	21 915	48	-
DBSA @ 10.00%	9637/102	31/03/2014	2 906	-	252	2 654	1 990	-
DBSA @ 10.00%	10295	30/06/2016	1 448	-	90	1 358	-	-
DBSA @ 9.39%	13541/1	30/09/2020	144 075	-	10 111	133 964	166 810	-
DBSA @ 16.55%	12716	31/12/2012	233	-	23	210	31	-
DBSA @ 16.55%	12717	31/12/2012	432	-	41	391	298	-
DBSA @ 16.15%	12032	31/12/2010	431	-	71	360	553	-
DBSA @ 16.67%	12033	31/12/2011	757	-	93	664	-	-
DBSA @ 16.67%	12034	31/12/2011	405	-	50	355	554	-
DBSA @ 15.26%	12035	31/12/2011	123	-	16	107	170	-
DBSA @ 15.26%	12036	31/12/2011	572	-	73	499	794	-
DBSA @ 15.26%	12037	31/12/2012	1 377	-	136	1 241	-	-
DBSA @ 15.26%	12038	31/12/2012	322	-	32	290	419	-
DBSA @ 15.26%	12388	31/12/2012	1 639	-	162	1 477	791	-
DBSA @ 15.74%	12208	31/12/2009	3 438	-	804	2 634	-	-
DBSA @ 12.00%	9726/104	30/09/2014	2 354	-	205	2 149	134	-
DBSA @ 16.50%	11064/102	31/03/2020	2 195	-	13	2 182	-	-
DBSA @ 10.63%	11073/101	30/09/2013	10 216	-	1 362	8 854	17 234	-
DBSA @ 10.63%	11073/2	30/09/2013	30 368	-	4 049	26 319	46 562	8 825
			570 525	-	58 722	511 803	683 464	8 825
TOTAL EXTERNAL LOANS			5 628 417	444 628	94 191	5 978 854	5 983 398	202 232